BlackRock Global Unconstrained Equity Fund (AUST)

BLACKROCK®

FUND UPDATE **31 December 2023**

Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Incep
BlackRock Global Unconstrained Equity Fund (Aust) (Class D) (Net of Fees)	2.72	7.25	-	-	-	-	7.94
MSCI All Country World Index NET (in AUD)	1.94	5.38	-	-	-	-	4.59
Outperformance (Class D) (Net of Fees)	0.77	1.87	-	-	-	-	3.34
BlackRock Global Unconstrained Equity Fund (Aust) (Class S) (Net of Fees)	2.61	7.03	-	-	-	-	7.42
MSCI All Country World Index NET (in AUD)	1.94	5.38	-	-	-	-	4.59
Outperformance (Class S) (Net of Fees)	0.67	1.64	-	-	-	-	2.82

[1] Fund inception: 09/28/2023.

Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised. Performance is calculated in Australian dollars and assumes reinvestment of distributions. Gross performance is calculated gross of ongoing fees and expenses. Net performance is calculated on exit-to-exit price basis, e.g. net of ongoing fees and expenses. Gross returns are provided for products offered to wholesale clients only who may be subject to differential fees. Please refer to the Fund's product disclosure statement for more information.

Visit **BlackRock.com.au** for further information, including:

- Market Insights & Commentary
- Fund Performance
- Unit Prices

Global Impact December 2023

Market Overview

Markets performed strongly in the fourth quarter of 2023, with the MSCI World Index performing positively. Investor confidence was driven by the easing of inflationary pressures (US CPI YoY change at 3.1% in November, down from 3.7% in September, and Eurozone inflation YoY change at 2.4%, down from 4.3% in September) and renewed optimism that the Federal Reserve and European Central Bank would adopt a more cautious approach to monetary policy changes and may not need to further increase interest rates in this cycle.

Performance and Portfolio Update

The Fund outperformed the MSCI World Index during the quarter, and ended the year ahead. Positions in technology, consumer staples and not owning energy added to relative returns, while industrials and communication services detracted.

At the stock-level, a position in ASML was among the largest contributors over the quarter. The company's share price rebounded from the underperformance of the third quarter, which was driven by cloudy short-term outlook for the semiconductor industry as the de-stocking cycle continued. At the Q3 results in mid-October, ASML reported earnings-per-share slightly ahead of market consensus driven by higher gross margins and guided for 2024 revenues to be broadly flat compared to 2023, as the semiconductor industry continues to work through the bottom of the inventory cycle; at the same time, the company see 2024 as an important year to prepare for the 'significant growth' in 2025, as they expect the inflection point to be near. The company expectation seems to be in-line with industry-wide data, such as the aggregate semiconductor revenue data compiled by the World Semiconductor Trade Statistics (WSTS), which for October 2023 shows flat YoY revenue growth for the industry, after having bottomed in the first half of 2023 in what was the largest semiconductors down-cycle since the Global Financial Crisis of 2008/09. Elsewhere, a position in Microsoft also added to relative returns. The company reported overall revenue growth of +12% (vs +8% in the previous quarter), as well as a 400bps margin expansion YoY. Within that, the Office segment reported solid numbers and the cloud offering Azure grew by 28% at constant currency (compared to the 25% guide), showing a reacceleration after the previous slowdown. Microsoft is now in the enterprise roll-out phase of their AI assistant Microsoft Copilot, providing the company with further cross-selling opportunities across the enterprise software space as companies optimise their architecture to maximise the Copilot potential. A position in Floor & Decor also contributed positively over the period. The company has experienced a material slowdown in 2023 due to the level of mortgage rates in the United States (which reached ~ 8% for a 30-year fixed mortgage in late October, the highest level since 2000) and the implications these had on existing home sales and related renovation expenses. Indeed, at the latest quarterly results in November, the company reported a small beat to consensus on earnings-per-share for the third quarter but guided for the fourth quarter to be slower than expected and modelled for no improvement on existing home sales in 2024. However, in the last two months of the year, the company's share price performed strongly as investors confidence on no further rate hikes grew and the 30-year fixed mortgage rate fell below 7%. And while higher-than-usual mortgage rates may be currently 'locking-in' homeowners, they can also act as countercyclical buffer to the company's demand, by incentivising major remodels in existing properties as homeowners await more favourable rates conditions to sell.

A position in Lonza was among the largest detractors over the period, with the company continuing to suffer from the severe de-stocking cycle in the biologics industry following the pandemic. While we regard this as a purely cyclical concern which would not prompt a portfolio repositioning, a number of other structural concerns led us to the decision to fully exit the position. We can point to three key reasons that prompted us to take such action. Firstly, the size of the Moderna contract that was terminated in September was significantly larger (~5% of revenues) than the company had originally led the market to believe. In addition to the loss of the contract itself, the manufacturing capacity that was built for Moderna will also be difficult to repurpose for other contracts. The way the situation was handled, amongst other things, contributed to an increasing loss of confidence in the management team ability to communicate with investors effectively. Secondly, certain parts of the business have been underperforming. For example, the vitamins and capsules business (~20% of revenues) has been underperforming following the extraordinary Covid growth due to overcapacity and an increasing commoditisation of the space (reducing the scope for competitive edges) and the small batch biologics production for clinical trials has also been in a significant downturn given the dry-up of early-stage biotech funding. Thirdly, at their Capital Markets Day in October, the company unveiled the forecasted revenue growth for the next 5 years. The guide was generally in line with the historical growth rate of the company, however we had been expecting a material step-up in revenue growth starting from 2024, especially given the significant increase in capex over the last 3-5 years. At the same time, other competitors within the biologics manufacturing space have not reported similar issues, and have been growing faster than Lonza (implying a loss of market share). Elsewhere, positions in Verisign and Verisk also detracted from relative performance. Verisign, the provider of domain name registry services, reported a slight miss versus consensus on revenues for the third quarter, but earnings-per-share were ahead of market consensus thanks to a disciplined management of operational expenses. Additionally, the company had to cut the fourth quarter guidance for revenue growth from 0.5% (at the mid-point) to flat, driven by slower-than-expected demand from China. However, despite the lower domain registry volumes in the recent past, the company has been able to continuously take price thanks to its strong competitive positioning: as of the end of the third quarter, the company held, via the. com and. net top-level domains, a total of 173.9 million domain name registrations (approximately 50% of all of the 359.3 million domain name registrations), and is expected to roll-out the new. web top-level domain that provide another runway for future growth.

Portfolio Activity and Business Update

During the quarter, as mentioned above, we have fully exited a position in Lonza, and have used the proceeds to opportunistically top-up other positions which have struggled year-to-date due to cyclicals considerations, such as Thermo Fisher and Floor & Decor.

Outlook

We expect the decline in inflation experienced over the course of this year to continue in 2024. We have often indicated how the state of the labour market would be one of the key variables at play in determining the outlook for inflation and the economy, while other components of inflation were already consistent with central banks targets. And even though it may be too soon to draw conclusions, the latest US labour market trends (as shown in the November 'Beige Book' report of the Federal Reserve) are encouraging, with demand for labour continuing to ease and retention rates improving. And while we expect the rate of economic growth to slow in 2024 (with Europe having already shown signs of slowdown in the last Eurozone GDP print, while the US economy has so far proved remarkedly resilient), we believe that the easing of inflationary pressures and a more dovish approach to monetary policy – in the context of a still uncertain near-term outlook – should prove supportive of high-quality companies that can sustain their profitability through time.

And when inflation and interest rates cease to be the primary determinants of the outlook for the economy, we expect the market and its dispersion to turn the focus back to company fundamentals and the strength of their reinvestment opportunity, which is where we direct all our research effort as we believe them to be the long-term drivers of equity markets.

Top Holdings

Holding	Weight %
MICROSOFT CORP	9.26
ASML HOLDING NV	7.76
NOVO NORDISK CLASS B	7.36
LVMH	7.22
CADENCE DESIGN SYSTEMS INC	7.01
S&P GLOBAL INC	4.85
COSTCO WHOLESALE CORP	4.67
MASTERCARD INC CLASS A	4.59
VISA INC CLASS A	4.57
ALPHABET INC CLASS C	4.30

Country Exposure

Country	Weight %
United States	69.73
Netherlands	7.76
Denmark	7.36
France	7.22
Italy	4.29
United Kingdom	2.97

About the Fund

Investment Objective

The investment objective of the Fund is to achieve long-term capital growth by investing in a global portfolio of equity securities.

Investment Strategy

The Fund aims to achieve its investment objective through investing in the BlackRock Global Unconstrained Equity Fund (Underlying Fund). The Underlying Fund is domiciled in Ireland and is a sub-fund of BlackRock Funds I ICAV, an Irish Collective Asset-management Vehicle. The Underlying Fund is managed by BlackRock Asset Management Ireland Limited and BlackRock Investment Management (UK) Limited has been appointed as Investment Manager (Investment Manager).

The Underlying Fund seeks to achieve its objective by investing at least 80% of its total assets in equity securities and equity-related securities (namely American Depositary Receipts (ADRs) and Global Depositary Receipts (GDRs)) of companies domiciled in or exercising a significant part of their economic activity in global developed markets.

Investment decisions will be based on fundamental, company-specific research to identify and select the equity and equity-related securities that, in the opinion of the Investment Manager, have the potential to produce attractive long-term capital growth. The Investment Manager's research looks at a range of factors when selecting companies in which to invest including, but not limited to, an analysis of their competitive advantages, the impact of structural (such as economic, demographic or technological) changes, the quality of management teams and their financial discipline. The Fund's portfolio is expected to be concentrated.

The Fund and the Underlying Fund have an unconstrained investment style (that is, it will not take a benchmark index into account when selecting investments) and is not subject to any restrictions on the proportion of its assets that must be invested in any particular country, region or industry sector.

The Underlying Fund applies exclusionary screens to the companies within its investment universe. The Investment Manager then applies its proprietary Fundamental Insights Methodology to identify companies that would otherwise have been excluded by the exclusionary screens but that it considers to be appropriate for investment on the basis that they are "in transition" and focused on meeting sustainability criteria over time.

Where a company is identified as meeting the criteria in the Fundamental Insights Methodology for investment and is approved in accordance with the Methodology, it is eligible to be held by the Underlying Fund. Such companies are regularly reviewed.

In the event that the Investment Manager determines that a company fails the criteria in the Fundamental Insights Methodology (in whole or in part and at any time) or it is not engaging with the Investment Adviser on a satisfactory basis, it will be considered for divestment by the Underlying Fund in accordance with the Fundamental Insights Methodology.

Should be considered by investors who ...

- Seek to invest in a Fund which provides investors with access to a professionally managed portfolio of global equity securities.
- Have a long-term investment horizon. The securities held in the Underlying Fund's portfolio have been selected based on BlackRock's view that they have a sustained competitive advantage, and so will typically be held over a long-term horizon.
- Want to invest into an actively managed fund without benchmark constraints. In selecting securities for the Underlying Fund's portfolio, the investment adviser is unconstrained by country, region or capitalisation limits.

Fund Details

BlackRock Global Unconstrained Equity Fund (Aust) (Class D)	
APIR Code	BLK9425AU
Management Fee	0.95%
Fund Size	$50,000.00

BlackRock Global Unconstrained Equity Fund (Aust) (Class S)	
APIR Code	BLK2713AU
Management Fee	0.30%
Fund Size	$50,000.00

* Fund size of the Australian Fund – excludes the AUM of the Underlying Fund into which the Fund invests.

BLACKROCK®